

**Management Advisory Report:
Strategic Planning for Toll-Free Telephone
Operations Has Made Significant Progress,
But Further Improvements Are Needed**

October 2000

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

October 17, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, appearing to read "Pamela J. Gardiner".

FROM: for Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report – Strategic Planning for
Toll-Free Telephone Operations Has Made Significant Progress,
But Further Improvements Are Needed

This report presents the results of our evaluation of the effectiveness of the Internal Revenue Service's (IRS) strategic planning process to provide world-class telephone service. Our objective was to determine whether Customer Service function management has an effective strategic planning process for developing, implementing, and managing its efforts to provide world-class telephone service to taxpayers.

In summary, despite extensive planning efforts that have led to fundamental management changes and technological improvements, the level of toll-free telephone service provided to taxpayers continues to fall below the industry standards. The IRS has mandated a new agency-wide strategic planning process that is currently being implemented in all agency functions, including the toll-free telephone system.

We believe that the new planning process provides a more structured methodology than the previous planning process. However, the long-range strategic planning, as well as the annual planning, for the toll-free telephone operations is being done without a comprehensive understanding of customer needs. The annual planning process for the toll-free system also needs a more effective monitoring system for timely determining that action items are on track.

Management's response was due on October 10, 2000. As of October 12, 2000, management had not responded to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Telephone Operations Has Made Significant Progress, But Further
Improvements Are Needed**

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Executive Summary

The Internal Revenue Service's (IRS) toll-free telephone system is the cornerstone of its customer service operations. The Fiscal Year (FY) 2000 budget for toll-free telephone services exceeded \$346 million for salaries and benefits alone. During FY 1999, taxpayers attempted nearly 108 million calls to the IRS' 3 main toll-free telephone lines.¹ The IRS has perhaps the world's largest peak telephone demand of any call center operation, since the majority of the calls are received between January and April each year. The staffing at the IRS' call centers peaks at about 15,000 during each filing season.

The Government Performance and Results Act of 1993 (GPRA)² requires all federal agencies to prepare strategic plans, covering at least a 6-year period, for how they will deliver high-quality products and services to the American public. These plans must consist of a comprehensive mission statement, a set of general goals and objectives, and the approach that will be used to achieve them, including the necessary resources. Strategic plans are the starting point and basic underpinning for a system of program goal-setting and performance measurement.

This review was conducted to determine whether Customer Service function management has an effective strategic planning process for developing, implementing, and managing its efforts to provide world-class telephone service to taxpayers.

Results

The past efforts by IRS management to strategically plan and implement improvements to the toll-free telephone operations, while extensive, have not resulted in the delivery of a high level of quality service to taxpayers. Although the level of service³ provided to taxpayers on the 3 main toll-free telephone lines has increased from 50 percent in FY 1999 to 59 percent in FY 2000 (through July 1, 2000), it remains well below the 68 percent level achieved in FY 1998. In addition, the quality of the answers provided to taxpayers did not achieve planning goals in FY 2000. Tax law⁴ quality was 72 percent

¹ These lines accounted for 87 percent of the over 123 million calls to the IRS' toll-free telephone lines.

² Pub. L. No. 103-62, 107 Stat. 285.

³ The IRS defines *level of service* as the percentage of total calls attempted that are answered. It is computed by dividing the total calls attempted into the total calls answered.

⁴ Inquiries of a procedural nature about business or individual tax returns or other types of tax situations.

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rather than the planned 80 percent, and account inquiry⁵ quality was 59 percent rather than the planned 75 percent.

The IRS is in the process of implementing an agency-wide strategic planning process that provides a more structured approach than its prior planning efforts. The effectiveness of this process can be enhanced by implementing a “customer-driven” planning system to better understand customer needs and by developing a monitoring system that enables management to more quickly respond to problems.

Improved Understanding of Customer Needs Would Provide a Stronger Platform on Which to Develop Long-Range Strategic Planning

Current and future customer requirements are the driving force behind the creation of strategic direction for the best-in-class organizations.⁶ At the IRS, Customer Service function management has increased its efforts to learn more about its customers’ needs, but does not have the resources to conduct a thorough analysis. As a result, long-range strategic planning, as well as annual planning, for the toll-free telephone operations is being done without a comprehensive understanding of customer needs.

This is a significant and fundamental deficiency in the strategic planning process given that the demand for toll-free telephone services has consistently exceeded the IRS’ capacity to provide it. Survey results show that taxpayers are not satisfied with their ability to contact the IRS by telephone. A comprehensive understanding of why taxpayers called (i.e., why making a call was necessary, rather than just the nature of the question) and whether their reasons for calling were satisfied would enhance the IRS’ efforts to improve toll-free telephone service performance and meet customer requirements.

Improvements to the Annual Planning Process Will Help Ensure That Strategic Goals Are Met

Despite significant efforts at developing various planning processes for toll-free telephone service, strategic improvement goals are not being met. While the IRS has begun implementing a well-structured agency-wide strategic planning process, the development, execution, and monitoring of annual performance plans remain the responsibility of its operating divisions. The FY 2000 planning processes for toll-free telephones did not include effective monitoring systems to allow management to link

⁵ Inquiries related to a taxpayer’s account, the processing of his/her tax return, or the correction of errors.

⁶ Federal Benchmarking Consortium Study Report *Serving the American Public: Best Practices in Customer-Driven Strategic Planning* (February 1997).

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accountability, costs, quality, and timetables through which problem areas could be identified and responded to on a timely basis.

Summary of Recommendations

The IRS needs to enhance the strategic planning process for its toll-free telephone system in order to serve taxpayers more effectively. To help provide the world-class level of customer service that it would like, the IRS needs to conduct a thorough analysis of customer needs. A comprehensive understanding of the actual number of taxpayers who called, how many times they called, why they called, and whether the reasons for calling were satisfied would enhance the IRS' efforts to improve toll-free telephone service performance and meet customer requirements. Further, the IRS needs to enhance its annual planning processes to include effective monitoring systems that will allow management to tie together accountability, costs, quality, and timetables through which problem areas could be identified and reacted to on a timely basis.

Management's Response: Management's response was due on October 10, 2000. As of October 12, 2000, management had not responded to the draft report.

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Objective and Scope

We evaluated the effectiveness of the IRS' strategic planning process to provide world-class telephone service.

This review is part of one of our Fiscal Year (FY) 2000 emphasis areas focusing on customer service activities. Our overall objective was to determine whether Customer Service function management has an effective strategic planning process for developing, implementing, and managing its efforts to provide world-class telephone service to taxpayers. To assess the Internal Revenue Service's (IRS) strategic planning process, we reviewed documentation of its strategic planning efforts and interviewed IRS management officials involved with the strategic planning process.

We performed work at the IRS' Customer Service headquarters office and at the Customer Service Operations Center (CSOC). Our review was conducted between May and July 2000 and was performed in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

Details of our objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

Strategic planning is a statutory requirement for all federal agencies.

The Government Performance and Results Act of 1993 (GPRA)¹ requires all federal agencies to prepare strategic plans for how they will deliver high-quality products and services to the American public. These plans must cover at least a 6-year period and must consist of a comprehensive mission statement, a set of general goals and objectives, and the approach that will be used to achieve them, including the necessary resources. Strategic plans are the starting point and

¹ Pub. L. No. 103-62, 107 Stat. 285.

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Two of the Customer Service function's major goals are increasing accessibility and providing quality service.

The IRS' budget to provide toll-free telephone services during FY 2000 is over \$346 million in salaries and benefits.

basic underpinning for a system of program goal-setting and performance measurement.

The IRS' mission, which was revised in 1998 to place a greater emphasis on customer service, is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. The Customer Service function has adopted this as its mission, as well, and has established four major goals to achieve it: 1) increase accessibility, 2) provide quality service, 3) control the growth of operating costs, and 4) reduce the need for taxpayers to contact the IRS.

The cornerstone of the IRS' customer service operations is its toll-free telephone system. During FY 1999, taxpayers attempted over 108 million calls to the IRS' 3 main toll-free telephone lines. The IRS deals with perhaps the largest peak telephone demand of any call center operation in existence, since the majority of the calls are received during the first 3½ months of each calendar year, which is the filing period for individual taxpayers. The staffing at the IRS' call centers peaks at about 15,000 during each filing season. The IRS' FY 2000 budget for providing toll-free telephone services exceeds \$346 million in salaries and benefits.

In recent years, the IRS has planned and implemented many fundamental management changes and technological improvements in an effort to deliver top quality telephone service to the American public. Nevertheless, the IRS continues to struggle to effectively meet the annual customer demand for its toll-free telephone services.

For example, IRS statistics for FY 2000 (through July 1, 2000) show that only a 59 percent level of service (LOS)² was provided to taxpayers on the 3 main

² The IRS defines *LOS* as the percentage of total calls attempted that are answered. It is computed by dividing the total calls attempted into the total calls answered.

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From FY 1999 to FY 2000, fewer calls have been answered, call quality is down, productivity is decreasing, and costs are significantly increasing.

toll-free telephone lines. While this is a substantial improvement over the 50 percent LOS achieved during the same period in FY 1999, over 6.5 million fewer calls were answered. The LOS remains well below the 68 percent level achieved in FY 1998.

Also, IRS statistics show that the quality of answers provided to tax law questions in FY 2000 was only 72 percent. The planning goal was 80 percent. Likewise, the quality of answers to account inquiries was only at 59 percent rather than the 75 percent planning goal. In addition, the IRS has now determined that its toll-free service productivity is decreasing and that the costs to provide these services are increasing.

Results

Both the IRS and its Customer Service function are in the early stages of changing the strategic planning process. The Customer Service function began its first strategic planning process in 1998 by contracting with a private vendor to conduct a gap analysis³ and to develop its Business Master Plan (BMP), designed to cover a 2-year period through May 2000. To date, the cost of that contract has exceeded \$2.3 million.

The Assistant Commissioner (Customer Service) has been responsible for the planning for toll-free telephone services while the Chief, Customer Service Field Operations (CSFO) has been responsible for implementing the plan. For FY 2000, numerous planning documents were developed including separate operations plans for the office of the Assistant Commissioner (Customer Service) and the CSFO. These high-level plans were supported by more specific action plans.

³ A study that compares where an organization stands at a point in time compared with world-class standards.

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The IRS is undergoing a major reorganization to more closely align its business units with its customer base.

During this time period, the IRS began a major reorganization into business units that are more closely aligned with its customer base. The Customer Service function is being divided between two business units. The toll-free telephone operations will be aligned under the Wage and Investment (W&I) Division and the Small Business/Self-Employed (SB/SE) Division. The office of the Assistant Commissioner (Customer Service) will cease to exist. The CSOC will become the Joint Operations Center (JOC) and will provide toll-free management for the business units.

The IRS began implementing a new agency-wide strategic planning process in March 2000.

The IRS Commissioner instituted a new structured strategic planning process for the entire organization in March 2000. Each of the new business units is required to develop plans using this process. Preliminary plans have been developed and are in a review process, with the expectation that they will be finalized and included with the next budget submission, which is for FY 2002.

This new planning process provides a more structured approach than the process previously used by the Customer Service function. Generally, it meets the requirements of the GPRA and links resources/budgets to actions. However, the implementation of this new process has caused the Customer Service function to discontinue its use of the BMP developed by the contractor. In addition, Customer Service function management was unable to use the results of a task order under that contract for a strategic planning process. While the Customer Service function has provided this strategic planning process to the new W&I and SB/SE Divisions, it is doubtful it will ever be used.

Although the purpose of this review was not to assess the progress of the Customer Service function toward achieving its four major goals (i.e., increase accessibility, provide quality service, control the growth of operating costs, and reduce the need for taxpayers to contact the IRS), good planning is essential to meeting those goals. IRS management information system reports for FY 2000 show that there are serious

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problems in achieving at least the first three of these goals.

To provide a stronger platform on which to develop their long-range strategic plans, management in the W&I and SB/SE Divisions and the JOC need to increase their understanding of customer needs and make improvements to the annual planning process to ensure that strategic goals are met.

Improved Understanding of Customer Needs Would Provide a Stronger Platform on Which to Develop Long-Range Strategic Planning

Understanding customer behavior is a critical factor in developing a strategy to improve telephone services. The IRS has increased its efforts to learn more about customers' needs; however, additional efforts are required. Long-range strategic planning, as well as annual planning, for the toll-free telephone operations is being done without a comprehensive understanding of customer needs. Comprehensive analyses of call data and surveys of taxpayers and practitioners have not been conducted to understand needs and expectations.

The GAO says that agencies must understand customer needs in order to improve services.

The General Accounting Office's (GAO) *Business Process Reengineering Assessment Guide* states:

Before an agency embarks on a reengineering effort, it should have a comprehensive understanding of who its current and future customers are and what their needs and expectations are as key input for improving the type, cost, quality, and timeliness of the products and services provided.

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In addition, the Federal Benchmarking Consortium Study Report *Serving the American Public: Best Practices in Customer-Driven Strategic Planning* (February 1997) states:

Current and future customer requirements are the driving force behind the creation of strategic direction for the best-in-class organizations.

The needs and expectations of taxpayers who use the IRS' toll-free telephone services remain largely unknown.

Customer Service function management has planned or initiated several efforts to partially analyze customer needs. These include conducting focus groups at the National Tax Forums and a single call site study on why people call. However, Customer Service function management stated that they do not have the resources to conduct a thorough analysis of customer needs.

The IRS needs to develop new strategies to reduce the high demand for telephone service.

In one of its draft strategic planning documents for the W&I Division, the IRS stated that “the demand for service to taxpayers exceeds the capacity of the IRS to provide the service.” Further, survey results show that taxpayers are not satisfied with their ability to contact the IRS by telephone.⁴ This situation can only be exaggerated without comprehensive knowledge of why taxpayers called (i.e., why making a call was necessary, rather than just the nature of the question) and whether their reasons for calling were satisfied. Understanding customer demand is critical to the IRS' efforts to improve toll-free telephone service performance and to its ability to develop strategies to reduce demand.

There is a dual risk of not providing services that the taxpayers need but also of providing services that the taxpayers do not need. The downstream effect of this can ultimately be that taxpayers do not fully comply with the tax laws.

⁴ Survey conducted by the Midwest Citizen Advocacy Panel appointed by the U. S. Secretary of the Treasury in February 1999.

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The Customer Service function has been unable to effectively achieve three of its four major goals toward improving taxpayer service.

Another effect of not improving performance results is that employee job satisfaction can be affected when employees are aware that they are unable to provide the services needed. As statistics cited in the Background section of this report show, the Customer Service function is encountering serious problems in achieving at least three of its four major goals toward improving service to taxpayers. Knowledge of this could adversely affect employee morale.

Recommendation

1. The Chief, Customer Service Field Operations, should conduct a thorough analysis of toll-free telephone customer needs by using resources available at the CSOC and by working and/or contracting with other groups. These might include those inside the IRS (such as the Compliance Research offices of Statistics of Income and National Headquarters Research and Analysis) and outside of the IRS (such as AT&T⁵).

Management's Response: Management's response was due on October 10, 2000. As of October 12, 2000, management had not responded to the draft report.

Improvements to the Annual Planning Process Will Help Ensure That Strategic Goals Are Met

The FY 2000 planning process for the Customer Service function does not provide sufficient details to effectively track cost, quality, and timeliness of specific annual operation plan action items, nor is there a comprehensive tracking system for these items.

The GPRA requires that annual plans contain performance goals and indicators that are:

⁵ The contractor that the IRS uses for its telephone services.

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- Expressed in an objective and quantifiable manner.
- Mainly those used by managers as they direct and oversee how a program is carried out.
- Centered on the Customer Service function's core purpose.

Measures for cost, quality, and timeliness are an important part of detailed strategic plans.

The GAO's *Business Process Reengineering Assessment Guide* states that "...under GPRA, an agency should have measures for all its major processes to track cost, quality, and timeliness." The *Guide* also provides for project accountability through a requirement to appoint an individual to be "held accountable and responsible for the workings and improvements of one of the organization's defined processes and its related subprocesses."

The performance goals and indicators in the FY 2000 Customer Service function plans for toll-free telephone service adequately address the first and third elements required by the GPRA. However, none of the plans, together or separately, address all of the resources needed to meet these goals, nor do they provide any measures to track cost.

The FY 2000 Customer Service strategic plans were developed to support the IRS' three strategic goals.

During the FY 2000 strategic planning process, the Assistant Commissioner (Customer Service) and the CSFO office developed separate annual operations plans. The plans for both areas included actions to address the six operations priorities determined by the Chief Operations Officer. In addition, these actions were tied to the IRS' three strategic goals: *Service to Each Taxpayer, Service to All Taxpayers, and Productivity Through a Quality Work Environment*. Measures were then established for five of the six operations priorities, although those measures were not tied to specific actions. Finally, each office developed a more detailed action plan that outlined the specific actions to be taken to achieve the more general actions listed in its annual operations plan.

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The more specific action plans developed by the Assistant Commissioner (Customer Service) contained the estimated completion dates and the responsible officials for each action item. This information was entered in a database to track the progress of each item.

In addition, this office initiated a project management approach for all significant projects. A structured process was used to define each project, assign responsibility, and track progress. A Risk Management Group was established to conduct monthly reviews of projects. This group elevated any major concerns to an Executive Steering Committee that meets on a monthly basis.

The CSFO used a different approach. The more specific action plans developed for the CSFO were done at the individual call site level. While these plans provided specific actions, they did not contain estimated completion dates or the assignment of specific responsibility beyond the call site in general. There was also no ongoing tracking system.

The CSFO conducted a mid-year review and plans a year-end review to determine status. In addition, monitoring was done through monthly operational reviews and weekly and daily conference calls. In its mid-year review, the CSFO recognized the need to “improve the process for yearly development of the Operational Plans to ensure better relationship between the corporate level and site level plans.”

Neither of the two offices has a process that tracks costs or quality of actions. For example, one specific action under the Assistant Commissioner (Customer Service) is to “implement RRA 98⁶ mandate to provide Spanish-speaking assistance on Exam[ination function] telephones.” While this is listed on the tracking

⁶ The IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 – Legislation signed into law on July 22, 1998, that contains many new and important taxpayer rights and protections.

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Annual plans to implement strategic goals for toll-free telephone service are the responsibility of the new operating divisions.

document as a completed action, there is no cost associated with providing this service nor any testing of the quality of the service provided.

Connecting the separate operating division annual planning processes to strategic goals will be a challenge

While the IRS has established a new agency-wide strategic planning process, the annual performance plans that are developed to implement the goals identified during that process remain the responsibility of the individual divisions.

In addition, the new process the IRS is putting into place is being developed to include total costs for activities. However, the IRS' 10-year-old financial system is not able to handle the required computations, and it will be necessary for the divisions to provide personnel to make these computations.

The IRS is raising its goals for both LOS and accuracy. The IRS has set a strategic goal to provide a 74 percent LOS for its 3 main toll-free telephone lines in FY 2002 and a 71 percent LOS for FY 2001. However, the FY 2000 LOS for the 3 major toll-free lines was only 59 percent.

Further, the tax law⁷ accuracy rate goal for FY 2001 is 74 percent, up from the 72 percent rate achieved in FY 2000. The FY 2001 accuracy rate goal for account inquiry telephone calls⁸ is 63 percent, up from the 59 percent rate achieved in FY 2000.⁹

⁷ Inquiries of a procedural nature about business or individual tax returns or other types of tax situations.

⁸ Inquiries related to a taxpayer's account, the processing of his/her tax return, or the correction of errors.

⁹ The FY 2000 figures are the actual "year-to-date" accuracy rates as of July 1, 2000.

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Achievement of ambitious level of service and quality goals will require more detailed strategic plans.

Current draft strategic plans tie achievement of these goals to such actions as additional funding to hire more telephone assistors, development of a new, more technical telephone assistor position, expanded alternative language services, use of compliance resources, improvement of notices, and better research tools for employees. However, these plans are unclear as to what specific impact each of these actions is expected to have on the stated goals. Both of the new divisions will require more detailed multi-year plans, as well as annual plans, in order to effectively achieve these very ambitious goals.

Recommendations

2. To effectively manage their annual plans to help achieve strategic goals, the W&I and SB/SE Divisions and the JOC need to develop tracking systems that set specific management accountability and clearly defined timetables, have the ability to track costs, and tie into a quality measurement process. Such systems will enable management to more quickly respond to problem areas as well as to more effectively plan for future years.
3. The W&I and SB/SE Divisions and the JOC need to develop more detailed multi-year plans, as well as annual plans, that identify the specific impact that planned actions are expected to have on the stated strategic plan goals.

Conclusion

Toll-free telephone service remains below industry standards despite improved planning efforts.

The Customer Service function developed numerous plans and processes to prepare for and monitor toll-free telephone service in FY 2000. Despite these efforts, toll-free service remains below industry standards.

The IRS has mandated a new agency-wide strategic planning process that is currently being implemented in all agency functions, including the toll-free telephone

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A thorough knowledge of customer needs and an effective monitoring system are essential to improving toll-free telephone service.

operations. However, the long-range strategic planning, as well as the annual planning, for the toll-free telephone operations is being done without a comprehensive understanding of customer needs and, consequently, the best ways to address those needs.

To reach the IRS' strategic goals of *Service to Each Taxpayer* and *Service to All Taxpayers*, the toll-free telephone system needs significant improvement. This process can be enhanced by obtaining a better knowledge of customer needs and by developing a monitoring system that enables management to more quickly react to any problem areas.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall audit objective was to determine whether Customer Service function management has an effective strategic planning process for developing, implementing, and managing its efforts to provide world-class telephone service to taxpayers.

We performed the following work to accomplish our objective:

- I. Determined whether the Customer Service Business Master Plan (BMP) provides an effective multi-year strategy/framework.
 - A. Determined whether the BMP contains the six critical components required by the Government Performance and Results Act of 1993 (GPRA)¹ for government strategic plans.
 - B. Determined whether the Customer Service function has effectively tied its four major goals to its strategic planning process.
 - C. Determined the status of the Customer Service Program Management Plan.
- II. Determined whether the Customer Service function has an annual performance plan that is tied to the BMP.
 - A. Determined whether the Customer Service function's annual plan has the three elements required by the GPRA:
 - 1. Performance goals and indicators for the fiscal year that are:
 - a) Expressed in an objective and quantifiable manner.
 - b) Mainly those used by managers as they direct and oversee how a program is carried out.
 - c) Centered on Customer Service's core purpose.
 - 2. A description of the operational processes, skills, and technology and the human, capital, information, or other resources that will be needed to meet the performance goals.
 - 3. A description of the means that will be used to verify and validate measured values.

¹ Pub. L. No. 103-62, 107 Stat. 285.

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- B. Determined whether the annual plan contains objectives that support the goals stated in the BMP.
 - C. Determined whether the Customer Service function's annual plan has measures to track cost, quality, and timeliness.
- III. Obtained, summarized, evaluated, and interpreted written documentation to support the Customer Service function's mission/goals/objectives from National Headquarters management.
- IV. Determined whether the Customer Service function has defined and mapped its mission-critical business processes.
 - A. Interviewed Customer Service function management to determine if they had identified and documented their core processes.
 - B. Reviewed any documentation provided by Customer Service function management to determine whether they had defined the components of each process as well as the process' boundaries, dependencies, and interconnections with other processes.
- V. Determined whether Customer Service function management has an effective interim planning process in place to bridge the gap between the expiration of the BMP (May 2000) and the initiation of the new IRS strategic plan in 2002.
 - A. Interviewed Customer Service function management regarding the interim process and any inherent risks.
 - B. Reviewed any documentation provided by Customer Service function management.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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